

FDIC State Profile

Winter 2004

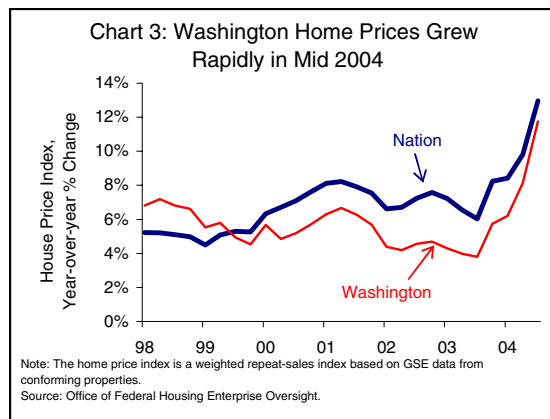
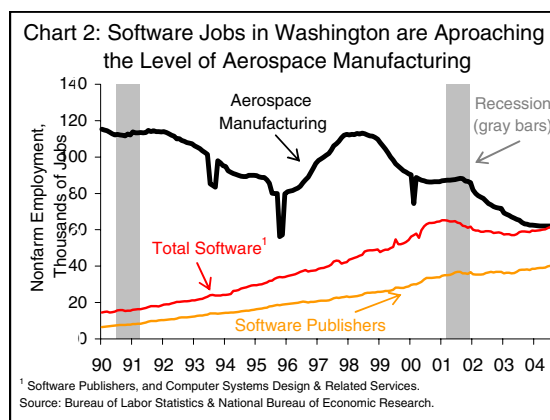
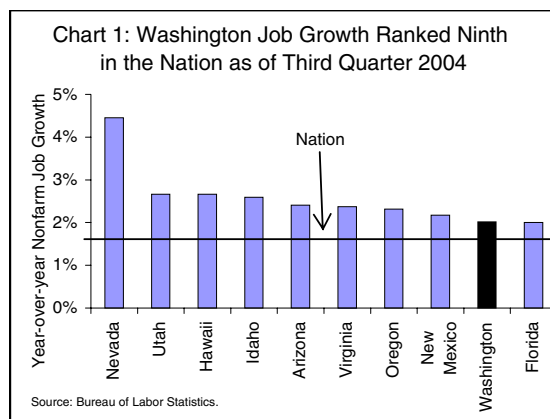
Washington

Job growth in Washington benefited from improved health in the software industry.

- Nonfarm employment in Washington grew by 2.0 percent (53,800 jobs) on an annual basis as of third quarter 2004 and ranked as the ninth fastest growth in the nation (See Chart 1). The strongest growth was in the professional and business services sector (11,500 jobs), the construction sector (8,800 jobs), the education and health services sector (7,000 jobs), and the information sector (5,300 jobs).
- Washington benefited from resiliency in the software publishing industry, which added more than 5,000 jobs to the state economy between the onset of the March 2001 national recession and third quarter 2004. Jobs in the software publishing industry, when combined with the computer systems design service industry, have almost begun to eclipse the employment level attained by the state's aerospace manufacturing industry (See Chart 2).
- Commercial construction permits in **Seattle** are expected to increase 129 percent in 2004, reaching a value of \$1.4 billion, while **Bellevue** is expecting a 40 percent increase.¹ Owner-occupied construction or expansion of existing buildings dominated the highest-value building permits. Speculative office space construction did not have a significant presence in new high-value permit activity and may stay that way until the office vacancy rate level normalizes. Nonetheless, strong construction growth suggests increasing optimism regarding the local economy, and bodes well for other support industries, including material and equipment suppliers.

Jobs and migration benefit the residential market in Washington.

- Strong job growth attracted in-migration to Washington which helped drive up demand for homes.²
- Washington home prices increased 11.8 percent as of third quarter 2004 when compared to a year ago (See



¹McOmber, Martin, "Region Again Hears Sound of Building Boom," Seattle Times, November 8, 2004.

²"Economic Upturn Means More People Moving to State," Puget Sound Business Journal, November 16, 2004.

State Profile

Chart 3).³ Among major metro areas, **Bellingham** had the strongest home price growth (20.5 percent), while **Yakima** had the weakest growth (4.6 percent) during this period.

- At 1.37 percent for the year ending second quarter 2004, the foreclosure rate in Washington was relatively low and ranked 33rd in the nation, the same as a year ago. Strong job growth and home price gains contributed to the decline in Washington's personal bankruptcy rate from 6.6 to 6.4 filings per thousand capita over this period, improving the state ranking from 15th to 16th.
- Home price appreciation may have contributed to strong home equity line of credit growth among Washington-based insured institutions; this loan sector experienced a one-year growth rate of 25 percent as of third quarter 2004.

Construction and development (C&D) lending led loan growth.

- Corresponding to the strong increase in commercial construction permits, C&D lending grew 25 percent year-over-year as of third quarter 2004 (See Chart 4). State institutions reported a median C&D loan exposure equal to 72 percent of Tier 1 capital, or eighth in the nation.
- Asset quality in the C&D portfolio does not appear to be a concern; median C&D past-due and charge-off ratios were unchanged at zero on a year-over-year basis as of September 30, 2004.
- While higher long-term interest rates can curb demand for new construction and, in turn, the effects of C&D lending growth, continued in-migration and expansion by existing businesses may help offset the effect of interest rate increases.

Deposits grew more rapidly in metro areas.

- Strong in-migration to the state allowed Washington to post the 12th fastest population growth rate over the past five years. Deposit growth in Washington also ranked 12th in the nation over the same period. Overall, the deposit base in the state's larger or faster growing metro areas grew more rapidly than deposits in micropolitan or rural areas (See Chart 5).
- The Seattle metropolitan area reported the highest deposit growth rate among the state's metropolitan areas, and was

ranked 31st out of 369 metro areas across the nation, and is home to more than 50 percent of the state's population.

- The **Kennewick-Richland-Pasco, Portland, and Olympia** metropolitan area ranked in the top 100 metro areas in the nation in terms of deposit growth. Four of the five counties that comprise these metropolitan areas were the fastest growing counties in the state, in terms of population growth.

Earnings performance remained stable.

- Median quarterly return on average assets (ROA) and net interest margins (NIMs) for insured financial institutions headquartered in Washington remained virtually unchanged and on par with the nation at 1.05 percent on a year-over-year basis as of September 30, 2004.
- However, the earnings performance of commercial banks again diverged from savings institutions. Commercial bank ROA rose to 1.05 percent as lower overhead and provision for loan loss expenses offset narrower NIMs and noninterest income. ROA at savings associations headquartered in Washington declined to 1.07 percent as NIM expansion and lower provision for loan loss expense failed to offset higher overhead charges and weaker noninterest income.

Chart 4: C&D Loan Growth Among Washington's Institutions Is the Highest Since 2001

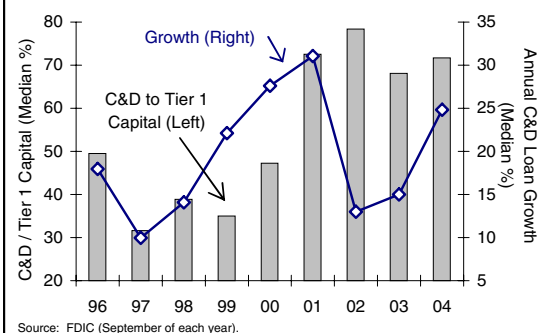
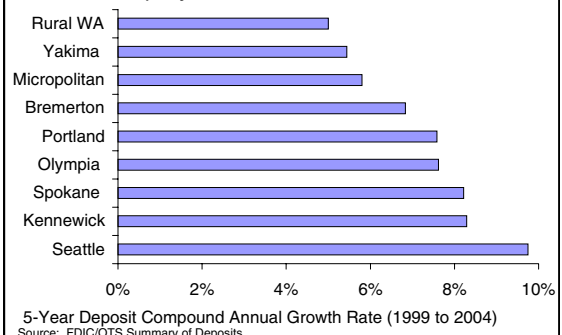


Chart 5: Deposits Held in WA Offices Grew Most Rapidly in the Seattle Metro Area



³Unless otherwise noted, this home price analysis was based on the Office of Federal Housing Enterprise Oversight data of existing homes that were refinanced or bought using a conforming loan.

Washington at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	99	100	102	99	104
Total Assets (in thousands)	79,978,892	80,377,066	71,700,553	72,956,208	71,125,132
New Institutions (# < 3 years)	8	6	11	15	20
New Institutions (# < 9 years)	31	32	35	33	35
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.97	9.58	9.67	9.52	10.36
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	0.82%	0.94%	1.41%	1.42%	1.30%
Past-Due and Nonaccrual >= 5%	4	5	8	3	5
ALLL/Total Loans (median %)	1.33%	1.39%	1.27%	1.16%	1.11%
ALLL/Noncurrent Loans (median multiple)	2.90	1.90	1.37	1.50	1.59
Net Loan Losses/Loans (aggregate)	0.12%	0.23%	0.27%	0.21%	0.12%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	4	5	13	14	19
Percent Unprofitable	4.04%	5.00%	12.75%	14.14%	18.27%
Return on Assets (median %)	1.05	1.06	1.04	0.95	1.05
25th Percentile	0.70	0.66	0.60	0.50	0.57
Net Interest Margin (median %)	4.63%	4.62%	4.70%	4.51%	5.07%
Yield on Earning Assets (median)	6.18%	6.37%	7.22%	8.42%	8.77%
Cost of Funding Earning Assets (median)	1.48%	1.79%	2.39%	3.94%	3.92%
Provisions to Avg. Assets (median)	0.21%	0.25%	0.32%	0.24%	0.25%
Noninterest Income to Avg. Assets (median)	0.61%	0.68%	0.59%	0.59%	0.48%
Overhead to Avg. Assets (median)	3.47%	3.55%	3.53%	3.64%	3.68%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	94.11%	91.32%	91.08%	91.20%	88.52%
Loans to Assets (median %)	75.73%	71.94%	73.36%	75.36%	74.05%
Brokered Deposits (# of Institutions)	42	34	33	26	21
Bro. Deps./Assets (median for above inst.)	2.78%	3.10%	3.06%	3.49%	2.42%
Noncore Funding to Assets (median)	22.63%	22.44%	22.34%	22.28%	20.75%
Core Funding to Assets (median)	65.55%	65.47%	66.05%	65.86%	66.37%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	59	61	63	60	64
National	13	13	15	15	15
State Member	5	4	2	2	2
S&L	6	6	7	7	7
Savings Bank	2	2	1	1	2
Stock and Mutual SB	14	14	14	14	14
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Seattle-Bellevue-Everett WA PMSA	38	49,410,629	38.38%	61.78%	
No MSA	29	9,188,368	29.29%	11.49%	
Tacoma WA PMSA	8	3,230,153	8.08%	4.04%	
Spokane WA	6	10,961,129	6.06%	13.71%	
Olympia WA PMSA	5	1,625,765	5.05%	2.03%	
Yakima WA	3	1,397,976	3.03%	1.75%	
Portland-Vancouver OR-WA PMSA	3	1,435,851	3.03%	1.80%	
Bremerton WA PMSA	3	1,005,655	3.03%	1.26%	
Richland-Kennewick-Pasco WA	2	251,898	2.02%	0.31%	
Bellingham WA	2	1,471,468	2.02%	1.84%	